LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7325 **DATE PREPARED:** Jan 21, 2002
BILL NUMBER: SB 515 **BILL AMENDED:**

SUBJECT: Assessment of rental and cooperative property.

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FUNDS AFFECTED: GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a property tax deduction for rental and cooperative housing and establishes the method for determining the assessed value of rental and cooperative housing. The bill also requires that evidence relevant to the value-in-use of rental and cooperative housing be considered in establishing the true tax value of the property.

Effective Date: Upon passage.

Explanation of State Expenditures:

Explanation of State Revenues: The State levies a small tax rate for State Fair and State Forestry. A $7.9 B reduction in the assessed value base will reduce the property tax revenue for these two funds by about $261,000 annually.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under this proposal, assessing officials would be directed to consider all relevant information, including rents, construction cost, comparable properties, use appraisals, restrictions, and other generally accepted appraisal principles, in the assessment of rental housing. The bill would limit assessors to the use of the capitalization of income method on low income rental housing and would prohibit consideration of tax credits or government subsidies in determining the value this property.

Most of these requirements and limitations may have little impact as assessors are already able to assess commercial property using these methods under the newly adopted real property assessment rule. However, the restrictions on the method of assessment and on the income considered in the assessment of low income rental housing would reduce assessed values statewide by an estimated $50 M.

The bill also all grants property tax deductions to owners of rental property and to multiple owners of multifamily dwellings. The multiple owners of multifamily property would be entitled to receive a deduction equal to 25% of the county's shelter allowance multiplied by the number of principal dwelling units. The owners of single family rental dwellings would receive a deduction equal to 100% of the county's shelter allowance. The owners of multiple family rental dwellings would receive a deduction equal to 50% of the county's shelter allowance multiplied by the number of principal dwelling units. The total additional shelter allowance is estimated at $7.852 B.

The additional shelter allowances and the assessment methods for low income rental housing in this bill would reduce the assessed value base by an estimated $7.902 B. The AV reduction would cause a shift of the property tax burden from the taxpayers receiving the shelter allowance and from low income rental housing to all taxpayers in the form of an increased tax rate. The statewide total shift is estimated at $150 M.

The shelter allowance in this bill and the assessment method for low income rental housing would take effect beginning with taxes paid in CY 2003.

State Agencies Affected: Department of Local Government Finance (State Tax Board).

Local Agencies Affected: County and township assessors.

Information Sources: Statistical Abstract, 2000, U.S. Bureau of the Census; Local Government Database.